



STEVE WESTLY
California State Controller

July 9, 2003

Steve Szalay
Executive Director
California State Association of Counties
1100 K Street, Suite 101
Sacramento, CA 95814

Chris McKinzie
Executive Director
League of California Cities
1400 K Street, Suite 400
Sacramento, CA 95814

Dear Steve and Chris:

Thank you for your continuing participation in the important discussions necessary to resolve California's budget crisis. This will be a painful year for most all governments in California and, more importantly, for the residents, businesses and visitors we all serve.

As you know, my office remains a steadfast champion for local government and the critical services you and your colleagues provide. Specifically, it was our sustained legal analysis that the monthly general fund "backfill" payments related to vehicle license fee (VLF) reductions and the health and welfare realignment must be paid to cities and counties in the absence of an adopted budget or other legislative action directing to the contrary.

Nonetheless, given the recent lawsuit filed against the recent VLF increase, as well as ongoing budget discussions between your organizations, Legislative representatives and the Governor's administration, I have directed my office to postpone a portion of the July VLF "backfill" payment until the end of the month.

The distribution of actual VLF fees, as well as the "backfill" payments required prior to June 20th (the date the VLF was increased), will be paid on July 10th for the VLF reduction and July 25th for health and welfare realignment, as has been our historical practice. The balance of the VLF "backfill" payments for the period of June 20th or later will be made before the end of July.

It is my sincere hope that the current budget impasse can be resolved before the end of July, and that this short delay might aid in that resolution.

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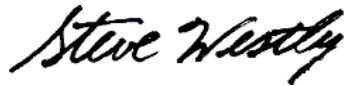
Steve Szalay
Chris McKinzie

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Please do not hesitate to contact me or my Chief of Staff, Greg Larson, at (916) 445-3028, if we may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Steve Westly". The signature is written in a cursive, flowing style.

STEVE WESTLY
State Controller

cc: Governor Gray Davis
Hon. John Burton, President Pro Tem of the Senate
Hon. Jim Brulte, Minority Leader of the Senate
Hon. Herb Wesson, Speaker of the Assembly
Hon. Dave Cox, Minority Leader of the Assembly
Steve Peace, Director of Finance